CONCORDIA UNIVERSITY

BOARD OF GOVERNORS

CONCORDIA EMPLOYEE BENEFITS COMMITTEE

Minutes of the meeting held Friday, November 16,1984

ATTENDANCE: Mr. R.L. Grassby, Chairman, Prof. L. Bessner
Ms. A. Kerby, Dr. H. Ladd, Prof. G. Martin,
Mr. B. Smart, Miss S. O'Reilly, Miss D. Johnson,
Mr. L. Perkins and Ms. E. Gardham.

REGRETS: Mr. M Bourgault and Mr. R.K. Groome

CONSULTANTS: Mr. L. Dixon, Mr. J. Lefebvre, Ms. M. Telmosse,
Mr. N. Bengough, Mr. D. Marsh and Mr. J. Raby

The meeting was called to order at 12:12

Minutes of the Last Meeting:

Professor Bessner proposed a motion to approve the minutes of the meeting of October 24, 1984. The motion was seconded by Ms. Kerby and unanimously carried.

Ms. Monique Telmosse of Pension Finance Associates was introduced to the Committee. She explained that it was her role to not just take us through the performance results of the pension fund but to help us interpret the results.

The Total Fund return of 11.0% per annum over the last 10 years, and 12% over the last four (4) years, was attributable to the efforts of money managers. Our objective, to have a rate of return 3% higher than the C.P.I., has been met as the results represent a 4% real rate of return. This represents the difference between passive and active management. The rate of return on Treasury Bills was 13.8% for the past four (4) years, this is risk free and a perfect example of passive management. In terms of volatility Concordia's results reflect less than average volatility. We have had a higher rate of return and a positive management effect of 1.8%; more than an indexed fund over the past four (4) years. The policy effect was more positive than negative.

Equity Section: In three (3) of four (4) years our results have been above average. 14% of the fund was used to make some buys. Most of the time we were net buyers of Canadian Equities.

Equity Section - con't:

Knowing this lets look at the market. Your managers, were buyers when the markets were down and sellers when the markets were up, a defensive portfolio management. Active management gave more to your fund than to an indexed one. When rates of return are negative your fund is in the first quartile, when they are positive it is in the third quartile.

Fixed Income: The Bond market is less votatile than the equity market. Over a four (4) year period the rate of return was 9.8%, the level of volatility was less and the management effect was less than an "indexed fund" of the same volatility.

The asset mix policy for four (4) years was positive and the policy decisions resulted in positive effect. The management objective of the C.P.I. plus 3% was achieved in both funds with a management effect of 4.3%.

In the combined fund over four (4) years the 12% rate of return was 3.6% above the C.P.I.

The complete text of the comparative measurement report represents Appendix A of the minutes.

It was a consensus of the Committee that the investment managers should be present for their own part of the comparative measurement presentation only.

Investment Management Review - Beutel Goodman:

Mr. Norm Bengough and Mr. Denis Marsh of Beutel Goodman were introduced to the Committee. Mr. Marsh outlined the order of their presentation. First, a look at where the economy is going then we will address the fixed income portfolio, and then the equity portfolio.

Everything seems to be on track according to the way we have projected things; with the sole exception of U.S. economic growth. With 3½ G.N.P. growth and inflation of about 5.5%, split into low inflation but strong at the tail end; corporate profits show a 22% increase this year and 12% next. Unemployment is expected to be 7.2% next year.

Canadian growth continues to lag, but we are seeing some signs of a pick-up. We will start to catch up next year with 3% growth expected. Corporate profits have been very good with an increase of about 22% this year.

We see the Canadian dollar moving up a slight amount to 82¢ from 77¢. Unemployment will probably remain sticky, probably in the 11% range and we can see the government is doing nothing about it.

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Fixed Income - Beutel Goodman (Mr. Norm Bengough):

Last May we had a minority view of what was going to happen to interest rates. There was strength in the U.S. dollar and the economic situation was deteriorating. This was reflected in sluggish rates of growth. We can recover in Canada as the dollar is relatively stable at about 76¢.

Fixed Income Portfolio: We have maximized the return from the capital standpoint. Easy money in the bond market is beyond us. The prediction is that short term rates are going to go down dramatically, we do not concur. We feel that lower rates in the second part of the year will lead to better economic activity. We are adopting a more defensive attitude toward the portfolio with thirty day paper and five (5) year bonds. We see a leveling out in the demand for money.

The chances are the U.S. dollar will decline, therefore inflation performance will not be as good as the bond market. Over the longer term a budgetary solution is a must. We think it is going to come in both countries.

A peak in interest rates occurred in 1981 the overall trend is down. Last two (2) years performance to the end of October on the fixed income side, 17.4% vs 14.3% and 17.3% McLeod Young Weir. We adopt a defensive position when rates are rising and an aggressive position when rates are declining. Prof. Bessner asked if there was any potential for a rise in the price of gold? Mr. Bengough replied that rates have been historically high because gold was a safe haven, but gold is paying nothing at the moment. The foreign debt situation will be papered over and it will not be allowed to impact on the financial situation of the U.S.

A member asked if the slide in the Bank of Canada rate reflects an expectation that the American dollar will weaken too? Mr. Bengough replied the Bank of Canada has been restraining the falling rate in Canada; if they did not the interest rate structure would have been lower and the Canadian dollar would have been lower.

The present asset mix is 42 - 58 and at this point we could quite safely take more equity money.

Mr. Smart asked what asset mix Beutel Goodman would limit themselves to? Mr. Marsh replied 40 - 60 and we are almost at our limit now.

Mr. Smart indicated he would like the hard figures on the portfolio mix.

Mr. Marsh stated the recommendation to use the cash generated in the fixed income account and mix it 50 - 50.

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The Chairman thanked Mr. Marsh and Mr. Bengough.

The Chairman asked if we should ask Mr. Raby to come back? The consensus was to continue with Jarislowsky Fraser's review.

Investment Management Review - Jarislowsky Fraser:

Mr. Joel Raby of Jarislowsky Fraser summarized their management perspective.

Let me just preamble with one or two thoughts. We deal a lot in magic and hokum:

1) How has the overall performance of our fund done?

2) Has our fund manager had to take a risk in order to achieve these results?

3) The results tend to be in the past and we should be looking ahead.

Bruce Smart commented, your performance suggests that your management has done consistently stronger in Canadain stocks than it has in bonds.

Mr. Raby replied, our bond portfolio is structured on a very conservative basis. Historically bond market profits have not been as attractive as equity. When you buy a stock it can have a selling price several times its initial purchase price. On the other hand, on owning a bond, your up side is the coupon on the bond, on the other hand with lower calibre companies, one rotten apply every couple of years is going to destroy your bond portfolio performance.

In the management of our short term cash we do not try to be heroes either. In terms of how we see things developing over the coming year, at the moment, looking at both, we are still running a very very cautious position - 55% fixed 45% equity. This is more conservative than we would normally be.

As the deficits are being reduced it is taking money out of the spending stream. This suggests that 1985 could be a bit of a difficult year. Stock selection will continue to be fairly cautious.

The economic rebound began about two (2) years and three (3) months ago. Most cycles last about four (4) years. A number of countries are still not making money. We are very cautious. There will probably be a politically inducted reduction of economic growth.

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In the U.S. our stock selection is cautious. Several industries with recession resistant characteristics are soap, cosmetics etc., we do not see inflation picking up in these areas.

Wilson is addressing the deficit in a two (2) or three (3) step procedure. First, we are over spending and this is what we want to address. Second, the cutbacks and the third step has to be that of addressing areas that will cause some social difficulties in Canada.

1. We are dealing with a higher rate of employment.

2. If there are to be tax increases... all of us are already paying very high taxes.

3. If we attack it on the spending side, much of our spending is on social programmes. While in the States the spending is on a bloated military budget.

Mr. Grassy, noted one factor that no one has addressed and that is that one Tory philosophy is to attract foreign investment. What impact will it have?

Mr. Raby replied hopefully it will help us out. By and large it has not gone in any of our resource areas. Canadians are at least becoming aware of the difficulities we are having. Why the high unemployment? It is because we have been living high off the hog. You have to try and create a confidence that the excesses of the past will be chipped away.

Mr. Grassby asked if there were any further questions?

Mr. Raby 's final comment was, our basic message is that 1985 is going to be a difficult year. We will remain steady. No major risks. No major changes planned.

The meeting adjourned at 2:45 p.m.

Respectfully submitted,

M.D. Johnson, Secretary
Concordia Employee Benefits

Special thanks to recording secretary Ms. E. Gardham